

**REPORT OF
FINANCIAL EXAMINATION**

**FARMERS MUTUAL INSURANCE
COMPANY OF CLINTON COUNTY**

**AS OF
DECEMBER 31, 2005**

**STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI**

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August 14, 2006
Plattsburg, Missouri

Honorable W. Dale Finke, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

FARMERS MUTUAL INSURANCE COMPANY OF CLINTON COUNTY

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 202 Maple, Plattsburg, Missouri, telephone number (816) 539-2104. This examination began on July 26, 2006, and was concluded on July 27, 2006, and is respectfully submitted.

SCOPE OF EXAMINATION

Period Covered

The prior full-scope examination of the Company was made as of December 31, 2000, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2001, through December 31, 2005, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

Procedures

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri prevailed.

Comments-Previous Examination Report

There were no comments or recommendations in previous examination report dated December 31, 2000.

HISTORY

General

The Company was organized in December 1891, and incorporated on January 13, 1892, as The Farmers Mutual Fire Insurance Company of Clinton County. On February 28, 1984, the Company changed its name to Farmers Mutual Insurance Company of Clinton County.

The Company has a Certificate of Authority dated July 1, 1991, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

Management

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the third Thursday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the members. Eight members constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of eight members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every month, and directors are compensated \$100 for each meeting attended.

Members serving on the Board of Directors as of December 31, 2005, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
Vance G. Bodenhausen 5632 NW Highway VV Gower, Missouri	Farmer/Insurance Agent	2004-2007
Brant Downey 109 Lakeview Drive Plattsburg, Missouri	Insurance Agent	2005-2008
Robert W. Moore P.O. Box 26 Lathrop, Missouri	Retired	2005-2008
Charles R. Ocker 305 North Cherry Cameron, Missouri	Insurance Agent	2005-2008
Ralph C. Schmude 7357 E. Haynesville Road Holt, Missouri	Realtor/Insurance Agent	2003-2006
David R. Shewey 7011 SW O Highway Trimble, Missouri	Insurance Agent	2003-2006
Richard McCauley 8206 NW K Highway Stewartsville, Missouri	Realtor	2003-2007
I.D. Smith, Jr. 3951 SE Wimm Road Lathrop, Missouri	Farmer	2004-2007

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2005, were as follows:

Vance G. Bodenhausen	President
David R. Shewey	Vice-President
I.D. Smith, Jr.	Secretary/Treasurer

Conflict of Interest

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

Corporate Records

A review was made of the Articles of Incorporation and the Bylaws of the Company. On February 21, 2002, the Articles of Incorporation and Bylaws were amended to change all references from “assessments” to “premiums,” to facilitate the Company’s change to a non-assessable company.

The minutes of the membership and the Board of Directors’ meetings were reviewed for the period under examination. The minutes and records of the Company appear to properly reflect corporate transactions and events.

FIDELITY BOND AND OTHER INSURANCE

The Company is a named insured on a fidelity bond providing a limit of liability of \$100,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated by the NAIC, which is between \$50,000 and \$75,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$1,000,000 and a \$2,500 deductible in aggregate for each claim.

The Company’s agents are responsible for obtaining errors and omissions insurance. The Company reimburses each agent up to \$200 per year for the cost of this coverage.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

EMPLOYEE BENEFITS

The Company has three full-time employees. The Company reimburses employees for the cost of health insurance, up to what would be the Company's cost of a \$250 deductible plan as quoted from NAMIC Insurance Company, Inc. The employees are allowed two to three weeks of paid vacation, depending upon length of service to the Company, and fifteen personal/sick leave days per year. The Company appears to have made adequate provisions in the financial statements for these employee benefits.

INSURANCE PRODUCTS AND RELATED PRACTICES

Territory and Plan of Operation

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire, wind and liability coverages. The Company's policies are sold by five licensed agents, who are also directors of the Company. The agents receive a 14% commission.

Policy Forms and Underwriting Practices

The Company uses AALS policy forms. Policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections are performed by the agents, and adjusting services are performed by the agents and independent adjusters.

GROWTH AND LOSS EXPERIENCE OF THE COMPANY

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2005	\$1,214,540	\$397,496	\$ 952,470	\$ 726,265	\$39,893	\$193,936	\$276,029
2004	1,377,947	837,175	1,009,575	1,046,116	36,506	(192,442)	(132,878)
2003	1,102,915	429,684	967,498	269,203	33,291	29,026	63,043
2002	936,648	326,211	890,883	315,086	40,334	(50,663)	(9,180)
2001	902,299	282,403	776,352	565,868	44,492	(20,238)	21,504

At year-end 2005, 1,363 policies were in force.

REINSURANCE

General

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Direct	\$776,352	\$890,883	\$967,498	\$1,009,575	\$952,470
Assumed	0	0	0	0	0
Ceded	<u>(361,132)</u>	<u>(504,181)</u>	<u>(258,076)</u>	<u>(373,240)</u>	<u>(430,434)</u>
Net	<u>\$415,220</u>	<u>\$386,702</u>	<u>\$709,422</u>	<u>\$636,335</u>	<u>\$522,036</u>

Assumed

The Company does not reinsure other companies.

Ceded

The Company has all of its reinsurance through Cameron Country Mutual Insurance Company (the reinsurer) under a single reinsurance agreement for both property and casualty risks. The per risk excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company retains \$35,000 per risk and the reinsurer's limit is \$100,000. The second layer

retention is \$135,000, and the reinsurer's limits are \$50,000 for commercial and confinement risks and \$250,000 for all other risks. The reinsurer's combined per occurrence limit for both layers is \$700,000. Risks ceded under the agreement are limited to \$185,000 for commercial and confinement risks and \$385,000 for all other risks. The 2005 premium rate, as a percentage of written premiums, equaled 16.61% for layer one coverage and 6.37% for layer two coverage.

The catastrophe excess of loss section of the agreement pertains to property risks and consists of two layers. Under the first layer, the Company's retention is \$225,000 per occurrence, and the reinsurer's limit is 95% of \$1,000,000 per occurrence. Under the second layer, the Company's retention is \$1,225,000, and the reinsurer's limit is 100% of \$7,000,000. The reinsurer's annual limits are 95% of \$2,000,000 for the first layer and 100% of \$14,000,000 for the second layer. The 2005 premium rate was \$.1548 and \$.3315 per \$1,000 total insurance in force for layers one and two, respectively.

The aggregate excess of loss section of the agreement pertains to property risks. The reinsurer is liable for 95% of losses in excess of 80% of the Company's net written premium, with an annual limit of \$2,000,000. The 2005 reinsurance rate was 2.5% of written premium.

The contract has a liability quota share section for liability risks. The Company cedes 100% of the liability risks and premium to the reinsurer and receives a 22% ceding commission.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

ACCOUNTS AND RECORDS

The accounting records are maintained by the Company on an accrual basis. The Company's independent CPAs, Van de Ven, LLC, conduct an annual review and prepare the Company's annual statement and tax filings.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2005, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

ANALYSIS OF ASSETS
December 31, 2005

Bonds	\$ 408,760
Stocks	5,211
Real Estate	25,660
Cash on Deposit	720,049
Computer Equipment	2,008
Interest Due and Accrued	7,466
Asset Write-Ins	45,386

Total Assets	\$ 1,214,540
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LIABILITIES, SURPLUS AND OTHER FUNDS
December 31, 2005

Losses Unpaid	\$ 2,582
Ceded Reinsurance Payable	8,770
Unearned Premium	369,406
Federal Income Tax Payable	425
Liability Write-Ins	16,313

Total Liabilities	\$ 397,496

Guaranty Fund	\$ 150,000
Other Surplus	667,044

Total Surplus	\$ 817,044

Total Liabilities and Surplus	\$ 1,214,540
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STATEMENT OF INCOME
December 31, 2005

Net Premium	\$ 553,962
Other Insurance Income	30,172
Net Losses Incurred	(101,375)
Other Underwriting Expenses	(288,823)

Net Underwriting Income (Loss)	\$ 193,936

Investment Income	\$ 39,893
Other Income	47,945

Gross Income (Loss)	\$ 281,774
Federal Income Tax	(5,745)

Net Income (Loss)	\$ 276,029
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CAPITAL AND SURPLUS ACCOUNT
December 31, 2005

Policyholders' Surplus, December 31, 2004	\$ 540,772
Net Income (Loss)	276,029
Unrealized Gain on Stock	243

Policyholders' Surplus, December 31, 2005	\$ 817,044
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NOTES TO THE FINANCIAL STATEMENTS

There were no notes to the financial statements.

EXAMINATION CHANGES

There were no examination changes.

GENERAL COMMENTS AND RECOMMENDATIONS

There were no general comments or recommendations.

SUBSEQUENT EVENTS

None.

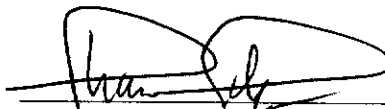
ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of Farmers Mutual Insurance Company of Clinton County during the course of this examination is hereby acknowledged and appreciated.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

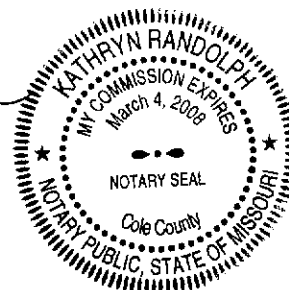

Shannon W. Schmoeger, CFE
Financial Examiner
Missouri Department of Insurance

Sworn to and subscribed before me this 14th day of August, 2006.

My commission expires:

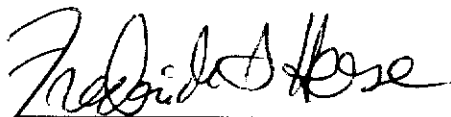
March 4, 2008


Kathryn Randolph
Notary Public



SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.


Frederick G. Heese, CFE, CPA
Audit Manager – Kansas City
Missouri Department of Insurance